GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3560
ANSWERED ON:16.12.2005
ALLOCATION OF FUNDS TO KERALA
Hamza Shri T.K.

Will the Minister of FINANCE be pleased to state:

(a) the allocation of funds to the State of Kerala by the 11th and 12th Finance Commission;

(b) the details of the proposals placed by the State Government of Kerala to the 12th Finance Commission;

(c) the reasons for increase /decrease if any in allocation of funds from 11th to 12th Finance Commission; and

(d) the amounts of funds allocated and amount so far utilized under the Centrally sponsored scheme for 2005-06, Scheme-wise?

Answer

Minister of State in the Ministry of Finance (SHRI S.S. PALANIMANICKAM)

(a): The total allocation of funds by Eleventh Finance Commission

(2000-2005) and Twelfth Finance Commission (2005-2010) to the State of Kerala is Rs. 12525.22 crore and Rs. 19607.72 crore, respectively.

(b) : Details of proposals placed by the State Government of Kerala to the 12th Finance Commission are annexed.

(c): Every Finance Commission adopts its own norms and criteria in determining the quantum of total resources to be transferred to States during its award period, after making detailed assessment of resources and liabilities of States. Thus, the share of States has changed under the recommendations of the various Finance Commissions.

(d) Funds under Centrally sponsored schemes are released to the States by various Central Ministries. Utilisation of funds is also monitored by the respective Central Ministries as per the relevant guidelines.

STATEMENT TO PART (b) OF THE LOK SABHA UNSTARRED QUESTION NO. 3560 FOR ANSWER ON 16TH DECEMBER, 2005

SUMMARY OF MEMORANDUM SUBMITTED BEFORE TWELFTH FINANCE COMMISSION

As regards share in taxes the following weightage may be given to three criteria, namely: population 80%, tax effort 10% and fiscal correction 10%.

As regards grants-in-aid under Article 275, a three stage application as indicated below may be recommended.

Stage I.Cover non-plan revenue deficit of the States remaining after the distribution of shares of Central taxes. Stage II. Then cover plan revenue deficit remaining even after taking into account plan grants and non-plan revenue surpluses if any.

Stage III. Provide appropriate grants for correcting too wide a range in per capita total revenue account surpluses among the States, so that weak States also have a reasonable revenue account surplus for capital investment.

Plan assistance in future should only be in the form of grants. The past plan loan liability with regard to loans taken from GOI must be written off in respect of States like Kerala who utilized most of these funds in efforts to reach the high level of human development.

• In future, loan portion of Central Assistance for State Plan and negotiated loans should be discontinued and in this place, adequate increase in open market borrowing may be allowed, with a ceiling fixed for each State. Correspondingly, borrowing by the Centre from open market can be reduced.

National Saving may be redesigned as below:

Ã˜ Write off 50% of outstanding national savings loans given to State Governments;

Ã˜ Future flows of net collections may be as 50% grant and 50% loan. This may be achieved during a five year period with the loan

component starting at 90% the first year and being reduced by 10% each in the subsequent four years, correspondingly increasing the grant portion to 50%.

Ã˜ A review may be undertaken after five years. By then, a way to rationalize the cost of the funds generated under the scheme could also be devised so that there is reasonable stability in the trend of growth of amount received by States as loans and grants under the scheme.

Specific suggestions regarding funds for local bodies as below:-

Ã˜ A portion of the amount set apart for local Governments may be given as incentive to State Governments willing to undertake basic fiscal and administrative reforms in Local Governments.

Ã˜ Special assistance may be given to States which are far ahead in the matter of decentralization for capacity building and for redesign of administrative systems.

Ã˜ The recommendations of the Eleventh Finance Commission to remove the cap on Profession Tax may be reiterated as it is felt that Profession Tax can be a very good local tax.

Ã˜ The recommendation of the Eleventh Finance Commission to synchronize the setting up of State Finance Commission may be reiterated in a modified form in such a way that the Constitution would enjoin the State Governments to constitute State Finance Commissions thirty months before the expiry of the award of the Central Finance Commission, stipulating a time ceiling of one year for submission of reports by the State Finance Commissions and six months for the State Governments to complete action on the recommendations. If this is done it would make the task of Central Finance Commission easier.

A National Disaster Mitigation Fund may be set up to provide assistance to the States for disaster preparedness and disaster mitigation.

We recognize the need for more reliable data for making normative and realistic forecasts and projections and therefore we suggests that the Finance Commission may make recommendations to put in place an independent authority who will arrange to ensure that for a given set of parameters, data will be available at least to the next Finance Commission. Adequate fund and institutional arrangements may be suggested for this.